

## Message Text

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ACTION NEA-09

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-06 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

EB-07 FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05

OMB-01 PM-03 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

FRB-03 PRS-01 SAJ-01 IGA-01 /117 W

----- 038812

R 081430Z APR 75

FM AMEMBASSY TRIPOLI

TO SECSTATE WASHDC 2129

INFO AMEMBASSY BEIRUT

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY CARACAS

AMEMBASSY TEHRAN

AMEMBASSY JAKARTA

USEC BRUSSELS 250

USMISSION OECD PARIS

C O N F I D E N T I A L TRIPOLI 0405

E.O. 11652: GDS

TAGS: ENRG LY

SUBJECT: BACKGROUND TO LIBYA'S RECENT CRUDE OIL PRICE CUT

1. REPRESENTATIVES CONTINENTAL OIL CO (MEMBER OASIS GROUP)  
GAVE EMBASSY SOME BACKGROUND ON LIBYA'S APRIL 1 PRICE CUTS.  
TEN DAYS AGO MINPETROLEUM MABRUK INFORMED CONTINENTAL OF  
APRIL 1 DROP IN PRICES AND ASKED THAT INFORMATION BE KEPT CONFIDENTIAL.  
ACCORDING LIBYAN RECKONING NEW PRICES SHOULD RESULT IN  
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NET ACQUISITION COST (EQUITY OIL PLUS BUYBACK) OF ABOUT \$11.10

FOR COMPANIES OPERATING IN LIBYA. CONTINENTAL CALCULATES COST AT \$11.15 PLUS BUT BELIEVES THEY CAN LIVE WITH THIS PRICE AND TURN A PROFIT OF SOME 20 CENTS PER BARREL, IF ALL OTHER FACTORS REMAIN CONSTANT.

2. IN RECENT MEETINGS MABRUK TOLD CONTINENTAL HE HAD DIFFICULT TIME SELLING PRICE DROP TO RCC AND ASKED FOR ASSURANCES THAT COMPANIES WOULD RESPOND TO PRICE CUTS WITH INCREASED LIFTINGS. CONTINENTAL REPLIED THAT MOST THIRD PARTY MARKETS HAD EVAPORATED BUT, IN RESPONSE TO LOWER PRICES, CONTINENTAL WOULD INCREASE LIFTINGS TO MAXIMUM EXTENT FOR ITS OWN DOWNSTREAM INSTALLATIONS.

3. BOTH LIBYANS AND CONTINENTAL BELIEVE MOST RECENT PRICE ADJUSTMENT SHOULD HAVE SOME EFFECT ON INCREASING LIBYAN OIL SALES TO MORE TOLERABLE LEVEL, ASSUMING GULF PRODUCERS HOLD TO OPEC LINE. THIS PRICE ADJUSTMENT WELL WITHIN OPEC GUIDELNES AND IS DUE PRIMARILY TO LIBYAN RECOGNITION THAT DEPRESSED TANKER RATES HAVE ERODED LIBYA'S TRANSPORTATION DIFFERENTIAL.

4. FOR LIBYAN OIL AS A WHOLE, EMBASSY BELIEVES PRICE CUTS OF MORE SUBSTANTIAL NATURE WILL BE REQUIRED TO INCREASE SALES TO SOMEWHERE NEAR 1.4 MILLION BPD, LIKELY LIBYAN TARGET. TOO MANY MARKETS HAVE BEEN LOST, CONSUMER ECONOMIES ARE IN SLUMP AND CONSUMPTION HABITS HAVE BEEN ALTERED. LIBYANS WILL THUS LIKELY BE DISAPPOINTED IF THEY THINK PRICE REDUCTION WILL HAVE RAPID MARKET IMPACT.  
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## Message Attributes

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